STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

BEAR RIVER MUTUAL INSURANCE COMPANY
OF
MURRAY, UTAH

AS OF

DECEMBER 31, 2003

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October 14, 2004

Honorable Merwin U. Stewart, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

Bear River Mutual Insurance Company
Of
Murray, Utah

a nonassessable mutual property and casualty insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2003.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's ("Department") last financial examination of the Company was conducted as of December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and a determination of its financial condition as of December 31, 2003. The examination was conducted in accordance with standards prescribed in the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, NAIC Accreditation Standards and Department policy. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary. Permitted assets and required liabilities were valued in accordance with laws, rules, and procedures prescribed by the State of Utah.

The Company retained the services of a certified public accounting firm to audit its financial records for the period under examination. The firm provided requested working papers prepared in connection with its audits. The firm's working papers were given consideration in adoption of the examination plan and incorporated into examination procedures when deemed appropriate. The firm's cash and investment confirmations, and correspondence regarding pending or threatened litigation, claims, and assessments received from the Company's legal representatives were relied on. The firm's work did not significantly affect the nature and extent of examination procedures performed.

The examination relied on an analysis of loss and loss adjustment expense reserves report prepared by an independent actuarial consulting firm, Taylor-Walker & Associates, Inc. The actuarial firm developed a point estimate and a range of reasonable reserve amounts based on the results of various commonly accepted actuarial methods. The Company's reported loss and loss adjustment expense reserves, net of reinsurance and other recoveries, of $18,403,352 are 13.2% above the firm's point estimate, but are within the firm's estimated range of reasonable reserves.

Examiners reviewed the actuarial report for reasonableness of the methodology employed and the conclusions reached. In addition, examiners tested the completeness of the records provided to the firm, and the accuracy of the underlying data used to establish reserve amounts.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The previous examination increased surplus as regards policyholders by $220,407. The increase resulted from minor adjustments made to several accounts. No changes in surplus were made as a result of this examination. Other than noted below, the Company has addressed items of significance identified in the prior examination report.

- Some directors and officers of the Company did not complete conflict of interest statements during the prior examination period. Conflict of interest statements were not completed for each year of this examination period (Refer to HISTORY – Conflict of Interest Procedure).

- The prior examination disclosed that contrary to Utah Administrative Code ("U.A.C.") § R590-116-4(1)(a)(ii) the Company's practice was to amortize bond discounts on a straight-line method. During this examination period, the Company continued to state bonds at amortized cost using the straight-line method (Refer to ACCOUNTS AND RECORDS).

HISTORY

General

The Company was organized August 21, 1909, as Bear River Mutual Fire Insurance Company under the provisions of Chapter 95, Session Laws of the State of Utah, 1909. The Company changed its name to Bear River Mutual Insurance Company on July 8, 1939. Subsequent to its organization, but prior to July 1, 1986, the Company operated under U.C.A. Title 31, Chapter 21. Effective July 1, 1986, the Company was brought under the provisions of U.C.A. Title 31A, Chapter 5, "Domestic Stock and Mutual Insurers" as a not-for-profit mutual insurer. The Company is licensed to write property, liability and vehicle liability lines of business in the State of Utah.

Amended Bylaws were filed with the Department in December 2001. In March 2002 at the policyholders annual meeting, members resolved to amend the Articles of Incorporation. Amended Articles of Incorporation were filed with and approved by the Department in 2002.

Bylaws were not amended to be consistent with the Amended Articles of Incorporation. Bylaws, Article VIII(b) provides that the articles of incorporation control if any conflict or inconsistency between the articles of incorporation and Bylaws exists. The following inconsistencies were noted:

- Amended Articles of Incorporation, Article VI, states that membership shall begin and take effect when the insurance policy takes effect and that there shall be one vote for each policy held by a member or members. Bylaws, Article II, Section 2.05, states that all members of record who hold policies, and are members of the corporation by virtue of the policy for at least fifteen days prior to the annual meeting will be entitled to vote.
- Amended Article of Incorporation, Article X, states that four or more directors shall constitute a quorum. Bylaws, Article III, Section 3.07, states that three or more directors shall constitute a quorum.

Membership

The Amended Articles of Incorporation provide that every policyholder shall be a member of the corporation. Membership begins when an insurance policy takes effect and ends upon cancellation or expiration of the policy. Each member is entitled to one vote.

Dividends to Members

No dividends were declared or paid during the examination period.

Management

Directors serving on December 31, 2003, were:

Name Residence	Principal Occupation
Gary Richard Chandler, Chair South Jordan, Utah	Consultant
Robert Alma Burton, Secretary Bountiful, Utah	Corporate Council for Burton Lumber Company
Thomas Alma Duffin Salt Lake City, Utah	Attorney
James Curtis Breitweiser Ogden, Utah	Principal/Owner of P&C Insurance Agency
Ross Cox Elliott Murray, Utah	Consultant
Don Herbert Adams Orem, Utah	President of Bear River Mutual Insurance Company

Board committee members serving as of December 31, 2003, were:

Investment Committee

Ross Cox Elliott, Chair
Gary Richard Chandler
Robert Alma Burton
Thomas Alma Duffin
James Curtis Breitweiser
Duffy Edward Pingree *

* Not a Board Member

Nominating Committee

Gary Richard Chandler, Chair
Thomas Alma Duffin
James Curtis Breitweiser
Don Herbert Adams

Audit Committee

Thomas Alma Duffin, Chair
Robert Alma Burton
Ross Cox Elliott

Officers serving the Company as of December 31, 2003, were:

Officer	Office
Don Herbert Adams	President
Eric Richard Ericksen	Chief Operating Officer
Duffy Edward Pingree	Chief Financial Officer
Craig Earl Densley	Vice President – Property
Carma Adrene Coleman	Vice President – Administrative Services
Sheryl Boehme	Vice President – Casualty Underwriting
Kathryn Jensen	Vice President – Casualty Claims

Conflict of Interest Procedure

The Company has a written conflict of interest policy that does not allow an employee to take advantage of a business opportunity of the Company or use his or her position as a Company employee to obtain any personal gain. In addition, an employee may not accept an appointment as a director or officer of another company, which has business dealings with, or is in competition with the Company.

Directors and officers signed conflict of interest disclosure statements for year 2001, but did not file statements in 2002 or 2003. Subsequent to the examination period, directors and principal officers signed conflict of interest disclosure statements covering the period 2001 through May 2004. The statements identified relationships with various business entities, but did not disclose any exceptions to the Company's conflict of interest policy.

Corporate Records

A review of member and board of directors' minutes indicated that members and the board of directors adequately approved and supported the Company's transactions and events. Committee minutes did not indicate that committees adequately performed the duties assigned to them by the Company's Bylaws. In addition, there was no evidence in audit committee minutes to show that the audit committee maintained an overview of the audit activities, systems, and staff of the Company as required by U.C.A. § 31A-5-412(2)(c). Investment Committee minutes were provided for one meeting in 2001 and two meetings in 2002. No Nominating Committee minutes were provided. Audit Committee minutes were provided for two meetings in 2001. Management stated that additional committee meetings were held, but that minutes were not kept.

In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior Department examination report to each member of its board.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company was not involved in any of these transactions during the examination period.

Surplus Debentures

The Company did not issue, hold or retire any debentures during the examination period.

AFFILIATED COMPANIES

The Company is not a member of an insurance holding company system.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity insurance suggested by the NAIC for the Company was $600,000. At the examination date, the Company had fidelity coverage with a single loss limit of $550,000 and a single loss deductible of $25,000. Subsequent to the examination period, a policy amendment increased the coverage to $600,000. Combined professional liability and directors and officers liability insurance had an aggregate limit of $10,000,000 with a $50,000 deductible. In addition, the Company was insured under property, liability, and workers' compensation policies. Authorized representatives of the insuring companies did not sign insurance policy declaration pages. In general, the policies specify that the policies are not valid unless countersigned by a duly authorized representative of the insuring company. Subsequent to the examination period, authorized representatives signed declaration pages of policies in force.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Employees of the Company that have reached the age of 21 are automatically enrolled in the Company's defined benefit pension plan after one year of employment. The plan is a retirement plan sponsored by the National Association of Mutual Insurance Companies to provide monthly retirement income to plan participants. The plan is fully funded when comparing the plan assets to the plan's accumulated benefit obligations.

Company employees are covered by a qualified 401(k) defined contribution pension plan sponsored by the Company. The Company matches up to 4% of each eligible participant's compensation for the plan year. In addition, the Company provides health, dental, and life insurance to its full-time employees and their families. Long-term and short-term disability insurance is provided to employees.

Effective July 31, 2001, the Company entered into an Early Retirement Agreement with its president. The agreement was intended to resolve and settle all potential disputes between the president and the Company. Under the agreement, the Company provided or is required to provide:

- Monthly compensation through June 30, 2005;
- Health and disability insurance coverage through June, 30, 2004;
- An outplacement service allowance;

- The automobile, laptop computer, and Palm Pilot assigned to the president during his employment; and
- Payment for time off with pay and short-term disability in accordance with the Company's policy.

A liability in the amount of $100,377 was included in the Company's financial statements as of December 31, 2003, for the value of the items remaining to be provided. The action taken by the board was not reported to the Commissioner within 30 days as required by U.C.A. § 31A-5-416(3).

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a statutory deposit equal to its required permanent surplus in the amount of $1,000,000. Bonds with an aggregate par value of $1,015,000 and an aggregate market value of $1,084,014 were held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company used Insurance Services Office policy forms for its fire and homeowners multiple peril policies, but developed its own policy forms for automobile physical damage and liability coverage. Policy Forms prepared by the Mutual Reinsurance Bureau were used for other liability policies. The Company does not maintain an inventory of policy forms. Forms are printed as required. Forms were filed with the Department prior to use. The Company's risk retention limits for all lines of business, other than business classified as personal umbrella liability business, was $75,000. Effective January 1, 2004, the retention was increased to $100,000. The risk retention limit on personal umbrella liability business was $50,000.

Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write property, liability and vehicle liability risks only in the State of Utah. During the examination period, the Company wrote fire, allied lines, homeowners multiple peril, other liability, private passenger auto liability, and auto physical damage lines of business.

The Company's marketing operations were conducted by approximately 64 independent agencies located throughout the State of Utah. Agents had authority to issue binder coverage for a limited period of time, but were not authorized to execute policies on behalf of the Company. The Company billed the insured directly for premiums.

Advertising and Sales Material

The Company's advertising and sales materials were limited to materials and media designed to enhance name recognition. Advertising consisted of telephone book listings, promotional items and radio and television commercials. Advertising and sales materials were not directly related to specific insurance policies.

Treatment of Policyholders

The Company maintained control over policyholder complaints. Separate procedures were established for Department complaints and all other written complaints. All written complaints were entered into a computerized spreadsheet. Thirteen complaints were filed with the Department in 2001, fourteen in 2002, and eight in 2003. Three other written complaints were filed with the Company in 2001, four in 2002, and eight in 2003. All of the complaints have been resolved and closed.

REINSURANCE

Assumed

As of December 31, 2003, the Company assumed reinsurance under a Regional Reciprocal Catastrophe Pool Reinsurance Agreement. Under the agreement, the Company assumed a one percent (1%) share of loss or losses incurred by Mutual Reinsurance Bureau ("MRB") under any of its aggregate and catastrophe excess contracts or similar covers ("Original Agreements") written under the Regional Reciprocal Catastrophe Pool. All Original Agreements were the top layers of each ceding insurer's reinsurance program. The Company's maximum assumed liability on any one Original Agreement was $200,000 on any one occurrence when the Original Agreement was written on an occurrence basis or $200,000 in the aggregate for one agreement year when written on an aggregate basis.

Ceded

The Company maintained a reinsurance program placed with and administered by MRB. Pursuant to reinsurance agreements in effect as of December 31, 2003, three member companies authorized to write business in Utah each assumed a one-third share of the following reinsurance:

- Property per risk excess of loss reinsurance for insurance in force classified by the Company as fire, allied lines, homeowners multiple peril (property perils only), and inland marine. The agreement provided three layers of coverage for loss or losses in excess of $75,000, subject to a maximum of $1,925,000 on any one risk or $4,275,000 on any one-loss occurrence.

- Casualty excess of loss reinsurance for insurance in force classified by the Company as homeowners multiple peril (casualty perils only), automobile liability, property damage, medical payments, underinsured and uninsured motorists, personal injury protection plans except physical damage to insured vehicles and comprehensive personal liability including medical payments. The agreement provided two layers of coverage for loss or losses in excess of $75,000, subject to a maximum of $1,925,000 on any one risk or $2,975,000 on any one-loss occurrence.

- Property catastrophe excess of loss reinsurance for insurance in force classified by the Company as fire, allied lines, homeowners multiple peril (property perils only), inland marine and auto physical damage. The agreement provided four layers of coverage for loss or losses in excess of $750,000, subject to a maximum of $29,250,000 on any one-loss occurrence.

- Personal umbrella reinsurance for insurance in force classified by the Company as personal umbrella liability business. The Company retained five percent (5%) of the first $1,000,000 in coverage. The reinsurers assumed a maximum liability of $1,950,000 for any one original insured.

ACCOUNTS AND RECORDS

The Company's accounting system utilized a centralized computer record processing system, supplemented by ancillary records maintained manually or on personal computers. An examination trial balance, as of December 31, 2003, was prepared from an electronic copy of the Company's general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual balance sheet account balances for the examination period were examined in accordance with standards prescribed in the NAIC Financial Condition Examiners Handbook.

Accounts and records deficiencies included the following:

- In brief general terms, the Company's business contingency and disaster recovery plan identified procedures necessary to recover from a major business interruption. A more comprehensive plan should be developed and adopted. The plan is not based on a business impact analysis nor does it cover all significant business activities. No evidence was provided to indicate that the plan has been tested. The plan includes the storage of critical files off site, but does not include the following:

    - a written agreement for a specific alternate site and computer hardware for use by information systems to restore data processing operations in the event of a disaster;
    - an assignment of a restoration priority to all significant business activities;
    - a list of critical computer application programs, operating systems and data files;
    - a complete list of supplies that would be needed in the event of a disaster, including supplier names and phone numbers; or
    - senior management's roles and responsibilities associated with the declaration of an emergency and implementation of the business continuity and disaster recovery plan.

- The Company did not report option dates and option call prices on bonds subject to call provisions on Annual Statement, Schedule D – Part 1 as required by annual statement instructions.

- Throughout the examination period, the Company reported the statement value of bonds at amortized cost using the straight-line method to maturity. U.A.C. § 590-116-4 A.1.a.(ii) requires bonds purchased above or below par, if not in default, to be valued at the value to par at maturity and so as to yield in the meantime the effective rate of interest at which the purchase was made. Bonds may not be carried at a value greater than the call price at which the entire issue may be called. NAIC Accounting Practices and Procedures Manual (APPM) Statement of Statutory Accounting Principles (SSAP) No. 26 Section 6 specifies that the amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions must be amortized to the call or maturity value date, which produces the lowest asset value.

- The Company improperly reported in its annual statements that its special deposits were not being held for the benefit of all policyholders, claimants, and creditors. Its special deposits were held in Utah for the benefit of all policyholders, claimants, and creditors.

- Uncollected premiums and premium installments booked but deferred and not yet due were combined and reported on line 12.1 of the Annual Statement Assets page. Annual statement instructions require installments booked but deferred and not yet due to be segregated and reported on line 12.2 of the Assets page.

- The Company did not prepare uncollected premium receivables aging detail reports to determine if any premiums were over 90 days past due. NAIC APPM SSAP No. 6, Section 9 requires that to the extent there is no related unearned premium, any uncollected premium balances that are over ninety days due shall be nonadmitted.

FINANCIAL STATEMENT

The Company's financial condition as of December 31, 2003, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2003
Underwriting and Investment Exhibit Statement of Income – January 1, 2003 through December 31, 2003
Surplus – January 1, 2001 through December 31, 2003

The accompanying Comments on Financial Statement are an integral part of these statements.

Bear River Mutual Insurance Company
Balance Sheet
As of December 31, 2003

ADMITTED ASSETS

	Amount	Notes
Bonds	$49,548,855	
Preferred stocks	482,055	
Common stocks	21,674,280	
Real estate occupied by the Company	5,655,276	
Cash and short-term investments	3,563,906	
Investment income due and accrued	681,301	
Uncollected premiums and agents' balances in course of collection	9,612,164	
Other amounts receivable under reinsurance contracts	1,989,429	(1)
Net deferred tax asset	1,408,311	
Guaranty funds receivable or on deposit	629,100	
Electronic data processing equipment and software	129,186	
Total assets	95,373,863	

LIABILITIES, SURPLUS AND OTHER FUNDS

	Amount	Notes
Losses	15,983,352	
Loss adjustment expenses	2,420,000	
Commissions payable, contingent commissions and other similar charges	862,703	
Other expenses, excluding taxes, licenses and fees	410,631	
Taxes, licenses and fees, excluding federal income taxes	1,095,411	
Current federal income taxes	290,037	
Unearned premiums	29,929,419	
Advance premiums	773,168	
Ceded reinsurance premiums payable	0	(2)
Amounts withheld or retained by company for account of others	30,970	
Total liabilities	51,795,691	
Unassigned funds (surplus)	43,578,172	
Surplus as regards policyholders	43,578,172	(3)
Total liabilities, surplus and other funds	$95,373,863	

Bear River Mutual Insurance Company
Underwriting and Investment Exhibit Statement of Income
January 1, 2003 through December 31, 2003

	Amount
Underwriting income:	
Premiums earned	$52,183,703
Deductions:	
Losses incurred	31,784,838
Loss expenses incurred	3,775,067
Other underwriting expenses incurred	14,773,831
Total underwriting deductions	50,333,736
Net underwriting gain	1,849,967
Investment income:	
Net investment income earned	1,986,029
Net realized capital losses	(490,224)
Net investment gain	1,495,805
Other income:	
Finance and service chares not included in premiums	395,208
Gain on sale of furniture and equipment	8,561
Total other income	403,769
Net income before federal income taxes	3,749,541
Federal taxes incurred	1,140,022
Net income	$ 2,609,519

Bear River Mutual Insurance Company
Surplus
January 1, 2001 through December 31, 2003

	2001	2002	Per Exam 2003
Surplus as regards policyholders, December 31 prior year	$31,188,340	$33,641,257	$36,393,019
Net income (loss)	1,604,890	1,105,329	2,609,519
Net unrealized capital gains (losses)	108,519	(1,840,964)	3,247,145
Change in net deferred income tax	110,304	560,366	1,432,198
Change in nonadmitted assets	12,990	(7,583)	(103,709)
Cumulative effect of changes in accounting principles	616,214	2,934,614	
Net change in capital and surplus for the year	2,452,917	2,751,762	7,185,153
Surplus as regards policyholders, December 31 current year	$33,641,257	$36,393,019	$43,578,172

COMMENTS ON FINANCIAL STATEMENT

(1) Other amounts receivable under reinsurance contracts $ 1,989,429

Contingent commissions receivable from MRB were reclassified to this account from ceded reinsurance premiums payable. NAIC APPM SSAP No. 62, Section 46, requires that an accrual based upon the experience recorded for the accounting period be maintained for amounts the reinsurer returns to the ceding entity based on a stipulated percentage of the profit produced by the business assumed from the ceding entity. NAIC Annual Statement instructions for page 2, line 13.3 specifies that other amounts receivable under reinsurance contracts includes commissions and expense allowances due and experience rating and other refunds due.

(2) Ceded reinsurance premiums payable $ 0

Contingent commissions receivable from MRB were reclassified from this account to other amounts receivable under reinsurance contracts.

(3) Surplus $ 43,578,172

The Company's reported surplus was not adjusted. The following schedule identifies an examination reclassification:

Description	Annual Statement Dr (Cr)	Examination	Change in Surplus Inc (Dec)	Notes
Other amounts receivable under reinsurance contracts	$ 0	$1,989,429	$ 1,989,429	(1)
Ceded reinsurance premiums payable	1,989,429	0	(1,989,429)	(2)
Total changes			0	
Surplus per Company			43,578,172	(3)
Surplus per examination			$43,578,172	

U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of $1,000,000. In accordance with U.C.A. 31A-17, Part VI, the Company's total adjusted capital was $43,578,172 and authorized control level Risk-Based Capital ("RBC") was $3,976,383.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. Amended Articles of Incorporation were filed with and approved by the Department in 2002. Bylaws were not amended to be consistent with the Amended Articles of Incorporation. (HISTORY - General)

2. Directors and officers did not file conflict of interest disclosure statements in 2002 or 2003. Subsequent to the examination period, directors and principal officers signed conflict of interest disclosure statements covering the period 2001 through May 2004. (HISTORY – Conflict of Interest Procedure)

3. Committee minutes did not indicate that committees adequately performed the duties assigned to them by the Company's Bylaws. In addition, there was no evidence in audit committee minutes to show that the audit committee maintained an overview of the audit activities, systems, and staff of the Company as required by U.C.A. § 31A-5-412(2)(c). (HISTORY – Corporate Records)

4. The minimum fidelity insurance suggested by the NAIC for the Company was $600,000. At the examination date, the Company had fidelity coverage with a single loss limit of $550,000 and a single loss deductible of $25,000. Subsequent to the examination period, a policy amendment increased the coverage to $600,000. (FIDELITY BOND AND OTHER INSURANCE)

5. The Company was insured under property, liability, and workers' compensation policies. Authorized representatives of the insuring companies did not sign insurance policy declaration pages. In general, the policies specify that the policies are not valid unless countersigned by a duly authorized representative of the insuring company. Subsequent to the examination period, authorized representatives signed declaration pages of policies in force. (FIDELITY BOND AND OTHER INSURANCE)

6. Effective July 31, 2001, the Company entered into an Early Retirement Agreement with its president. The action taken by the board was not reported to the Commissioner within 30 days as required by U.C.A. § 31A-5-416(3). (PENSION, STOCK OWNERSHIP AND INSURANCE PLANS)

7. Several accounts and records deficiencies were identified. (ACCOUNTS AND RECORDS)

8. Contingent commissions receivable from MRB were reclassified. (COMMENTS ON FINANCIAL STATEMENT)

CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. John Kay, CFE, CIE, Assistant Chief Examiner, supervised the examination.

Respectfully submitted,

C. Kay Anderson

C. Kay Anderson, CFE
Examiner-in-charge, Representing the
Utah Insurance Department